

Message Text

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ACTION EB-11

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TAGS: EFIN SW

SUBJECT: MOVEMENTS OF SPECULATIVE CAPITAL

REF: (A) STATE 81989; (B) STOCKHOLM 989, (C) STOCKHOLM A-359,
SEP 18, 1972.

BEGIN SUMMARY: SWEDISH CONTROLS ON INFLOW AND OUTFLOW OF CAPITAL,
WHICH HAVE EXISTED FOR OVER 30 YEARS, ARE STRINGENT AND RELATIVELY
EFFECTIVE. SUCH CONTROLS HAVE RECENTLY BEEN TIGHTENED AND SLIGHT
FURTHER TIGHTENING DURING NEXT SIX MONTHS IS POSSIBLE. END
SUMMARY.

FOLLOWING ARE KEYED TO QUESTIONS RAISED PARA 3 REFTEL -
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(1) RIKSBANK GIVES OCCASIONAL ORAL INSTRUCTIONS TO COMMERCIAL BANKS, BUT MOST INSTRUCTIONS WHICH BANKS CONSIDER BINDING ARE PUBLISHED IN WRITTEN FORM. MOST SWEDISH UNOFFICIAL CAPITAL CONTROLS ARE GEARED TO LONG- TERM CAPITAL FLOWS. FOR EXAMPLE, REQUESTS BY SWEDISH FIRMS FOR PERMISSION TO MAKE LONG- TERM INVESTMENT ABROAD MAY BE DENIED UNLESS THERE IS CLEAR SHOWING THAT INVESTMENT REQUIRED TO MAINTAIN FIRM' S COMPETITIVE POSITION WILL SAVE FOREIGN EXCHANGE FOR SWEDEN OR THAT IT WILL INCREASE SWEDISH EXPORTS.

A RECENT DEVELOPMENT IN UNOFFICIAL CONTROLS ON SHORT- TERM CAPITAL MOVEMENTS IS FOUND IN RIKSBANK TENDENCY TO REFUSE PERMISSION TO EXPORTERS WISHING TO REFINANCE RECEIVABLES ABROAD OR TO LIMIT SUCH PERMISSION TO EXCESS OVER AVERAGE AMOUNT OUTSTANDING DURING RECENT PERIOD. REQUESTS BY IMPORTERS TO REFINANCE RECEIVABLES ABROAD ARE USUALLY DENIED OUTRIGHT.

(2), (3) AND (4), SWEDEN HAS HAD ELABORATE SYSTEM OF CAPITAL CONTROLS IN PLACE SINCE LATE 1930' S. BY AND LARGE IT IS RELATIVELY EFFECTIVE, BOTH ON INFLOWS AND OUTFLOWS. THREE NEW CONTROLS ANNOUNCED IN MARCH 1973, LIMITING HOLDINGS BY FOREIGN BANKS OF SWEDISH KRONA ACCOUNTS, IMPOSING NEGATIVE INTEREST RATES ON EXCESS ABOVE BASE AMOUNTS, AND FORBIDDING 24- HOUR SWAPS (SEE REF B) APPEAR TO BE WORKING REASONABLY WELL. REQUESTS FOR EXCEPTIONS IN CASES OF FOREIGN BANKS WHO HAD ABNORMALLY LOW BALANCES IN BASE PERIOD (JAN 1973) HAVE NOT YET BEEN ACTED UPON. SINCE CONTROLS ONLY MENTION FOREIGN BANKS, SOME SWEDISH BANKS HAVE CONTINUED TO PERMIT FOREIGN NON-FINANCIAL CORPORATIONS (E. G. MNC' S) TO OPERATE IN FOREIGN EXCHANGE MARKET VIRTUALLY WITHOUT LIMIT.

CONTROLS WHICH DO NOT WORK ARE RESTRICTIONS ON " LEADS AND LAGS". FOR EXAMPLE, SWEDISH EXPORTERS WHICH IN THE PAST ALWAYS INVOICED GERMAN IMPORTERS ON 30 DAY TERMS COULD (AND HAVE) CHANGED TERMS TO 90 DAYS. THIS KIND OF THING APPEARS IMPOSSIBLE TO POLICE. OTHER FIRMS SIMPLY FAIL TO FOLLOW UP RECEIVABLES FROM STRONG CURRENCY COUNTRIES AS ENERGETICALLY AS IN THE PAST. THERE ARE ALSO INSTANCES OF SMUGGLING OF BANK NOTES AND SWEDISH SECURITIES OUT OF COUNTRY IN EXCESS OS SKR 6000 ALLOWED PER TRAVELER PER TRIP ABROAD. EXISTENCE OF SUCH LIMITED OFFICIAL USE

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SMUGGLING IS PROVED BY LARGE INFLOW OF SWEDISH BANKNOTES, ALTHOUGH SOME OF THESE INFLOWS ARE GENERATED BY NORMAL WORKERS REMITTANCES.

(5) ONLY RECENT EASING OF CONTROLS OF WHICH WE ARE AWARE IS DECISION IN NOV 1972 TO EXTEND TO IMPORTERS SAME PERMISSION ALWAYS AVAILABLE TO EXPORTERS TO OPERATE IN FORWARD FOREIGN

EXCHANGE MARKETS FOR UP TO 24 MONTHS INTO THE FUTURE. PREVIOUSLY IMPORTERS HAD BEEN RESTRICTED TO 12 MONTHS.

(6) RECENT STRENGTHENING OF ENFORCEMENT MEASURES ARE EXEMPLIFIED BY NEW RULES GOVERNING IMPORTATION OF 1000- KRONA BILLS AND BLACKLISTING OF CERTAIN FOREIGN BANKS, E. G., DANISH FINANCE BANK, WHICH WERE KNOWN TO ENCOURAGE SWEDES TO VIOLATE SWEDISH FOREIGN EXCHANGE REGULATIONS (REF C). ANOTHER NEW ENFORCEMENT MEASURE IS REQUIREMENT THAT INTENDING EMIGRANT SUBMIT CERTIFICATE FROM SWEDISH TAX AUTHORITIES THAT NO TAX OWED BEFORE EMIGRANT IS GRANTED PERMISSION TO TAKE CAPITAL OUT OF COUNTRY. THESE AND OTHER FOREIGN EXCHANGE REGULATIONS HVE RECENTLY BEEN SUPPLEMENTED BY NEW LEGISLATION PASSED BY RIKSDAG LAST WEEK WHICH CODIFIES RULES REGARDING NEGATIVE INTEREST RATE AND TAX CERTIFICATE REQUIREMENT.

(7) ONLY IMPACT OF JOINT EC FLOAT OF WHICH WE ARE AWARE WAS ANNOUNCEMENT OF NEW REGULATIONS REPORTED IN REF B. MOST SWEDISH BANKERS AND BUSINESSMENT WHO FAVORED EC MEMBERSHIP WERE PLEASED WITH SWEDISH PARTICIPATION IN JOINT FLOAT, BECAUSE IT FORCES GOS TO COOPERATE WITH EC MEMBERS, EVEN THOUGH IT ALSO LED TO TIGHTENING OF CAPITAL CONTROLS.

(8) WHILE WE HAVE NO GROUNDS FOR ANTICIPATING FUTURE REGULATIONS, IT IS POSSIBLE THAT ONE OR MORE OF FOLLOWING STEPS MIGHT BE TAKEN:

(A) LIMITS ON PURCHASE OF FOREIGN CURRENCY FOR TRAVEL ABROAD COULD BE ENFORCED BY REQUIREMENTS OF NOTATIONS OF SUCH TRANSACTIONS IN PASSPORTS;

(B) LIMITS ON HOLDINGS OF KRONOR BY FOREIGN BANKS COULD BE EXTENDED TO FOREIGN NONFINANCIAL CORPORATIONS (AT LEAST ONE SWEDISH COMMERCIAL BANK APPEARS TO BELIEVE THIS IS ALREADY IN LIMITED OFFICIAL USE

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EFFECT);

(C) A TAX ON FOREIGN TRAVEL COULD BE IMPOSED, THOUGH THIS WOULD BE HIGHLY UNPOPULAR IN SWEDEN.

(9) SWEDISH CAPITAL CONTROLS ARE RATHER STRINGENT BY EUROPEAN STANDARDS AND THEY HAVE EXISTED FOR OVER 30 YEARS. PERHAPS AS A RESULT, SWEDEN HAS NOT BEEN HIT AS HARD AS OTHER EUROPEAN COUNTRIES BY RECENT CURRENCY CRISES. ON OTHER HAND, REASON MAY SIMPLY BE THAT KRONA IS NOT A WORLD CURRENCY. SOME SWEDISH BANKERS FEEL, HOWEVER, THAT PEOPLE WILL FIND A WAY TO MOVE MONEY ACROSS BORDERS IF THEY WANT TO, NO MATTER WHAT CONTROLS MAY BE ESTABLISHED .

EVENTS OF PAST TEN DAYS, WHEN DOLLAR DROPPED FOUR PERCENT
AGAINST SWEDISH KRONA, PROVE THAT, DESPITE EXISTENCE OF STRONG
CAPITAL CONTROLS, SWEDEN LIKE OTHER COUNTRIES UNABLE TO DEAL
EFFECTIVELY WITH MASSIVE DOLLAR SALES.
DOZIER

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